

Weekly Macro & Markets View

Highlights and View

- **Fumio Kishida has been elected as Japan's 100th PM, while the Covid state of emergency has been lifted**

It will be essential for PM Kishida to focus on sustainable growth and reform, although Japan's economy already seems to be gaining steam based on the latest Tankan Survey.

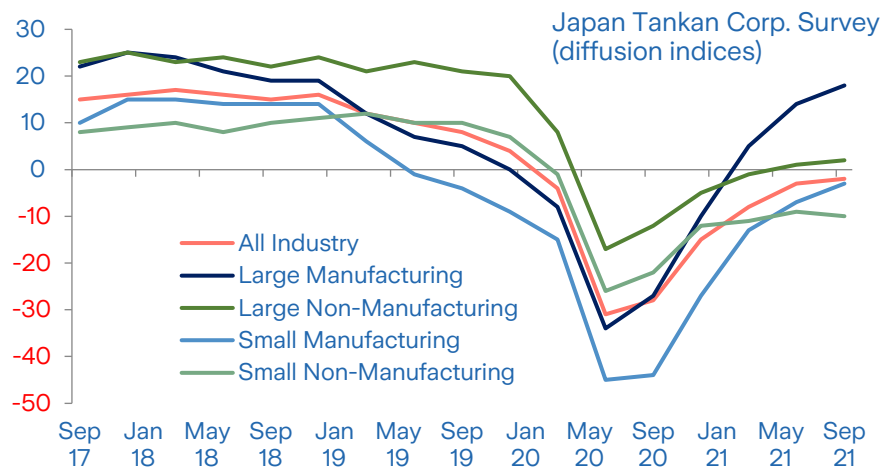
- **Eurozone headline inflation increases from a 10-year high in August to a 13-year high in September**

The spike in the headline inflation numbers probably exaggerates the size of the underlying move, but we do think that inflation is gradually moving higher in the region.

- **Credit markets seemed like an oasis of calm last week despite the jitters seen in stock markets**

Credit is typically a leading indicator of major market disruptions, hence the recent calmness is encouraging as it implies investors view current volatility as transient.

Kishida is Japan's new Prime Minister



Source: Bank of Japan, Bloomberg

Fumio Kishida, former Foreign Minister under PM Abe, was elected today as Japan's 100th Prime Minister following his second-round win in the LDP presidential elections last week. Among four candidates, Kishida led the first-round election neck and neck with Taro Kono, the Minister for Administrative Reform, who will now become Chairperson of Public Relations. While Kono won the majority of votes cast by more than one million LDP members, Kishida was favoured by the Diet members, who tend to prefer political stability over reform. Although the new cabinet was presented today, Lower House snap elections are now scheduled for October 31. Equity market participants seemed disappointed, with the Topix falling every day since the LDP elections, though Wall Street's weakness also had a negative impact. We will carefully watch whether Kishida will continue to focus on distribution versus growth and reform. Our outlook for the economy remains favourable as the Covid induced state-of-emergency for affected prefectures has been lifted, new Delta infection cases have receded significantly, and the vaccination rate is improving further. The quarterly 'Tankan' corporate survey came in better than consensus had expected. Sentiment among large manufacturing companies has improved markedly, though the non-manufacturing sectors keep languishing. However, we expect conditions to improve, as consumer confidence and turnover should recover quickly.

US: The S&P 500 suffers its worst week since February

Despite a decent rebound on Friday the S&P 500 still ended the week 2.2% lower, the worst weekly performance since February. Beneath the surface, the sector rotation continued with energy and banks outperforming while technology stocks struggled. The Nasdaq declined 3.2% on the week. Meanwhile, economic data paint a slightly mixed picture. The ISM Manufacturing Index rose to 61.1 in September with strong new orders pointing at a continuation of solid business activity. Consumer sentiment remains under pressure, however, with the Conference

Board's survey falling to the lowest since February, weighed down by both the current perception and expectations. Buying intentions weakened, particularly for large items, reflected in the fall of vehicle sales to a post-recession low in September. There was little progress on the political front as negotiations on the infrastructure package and the debt ceiling keep dragging on. On a positive note, a looming government shutdown for the beginning of October has been avoided for now as Congress passed a nine-week stopgap funding bill.

Eurozone: Inflation rises further, but unemployment falls

Eurozone inflation hit a fresh multi-year high, rising from 3.0% in August to 3.4% YoY in September on the headline measure, and from 1.6% to 1.9% on the core measure. The drivers were a mix of factors. Energy inflation rose two percentage points from 15.4% to 17.4% and was again a big contributor to headline inflation. However, services inflation also picked up, though partly related to HICP weighting changes this year. Even higher inflation prints are likely over the next few months. Gas and electricity prices have risen sharply in recent weeks, but the full

impact has not yet been passed on to consumers, and further increases in energy inflation are possible over the next few months. The sharp increase in inflation will make the ECB's communication job more challenging, but we still expect it to continue with a substantial amount of asset purchases this year and next. Meanwhile, other data released last week were more encouraging. Unemployment continues to gradually trend down and the EC economic sentiment indicator picked up slightly.

Asia: PMIs paint a mixed picture, while South Korea's exports surge to a record high

September Manufacturing PMIs showed that economic conditions for major ASEAN countries improved for the second month in a row, though not all managed to move above 50. Conditions remain difficult in Vietnam and Myanmar. The aggregate ASEAN PMI improved from 44.5 to 50. Taiwan's PMI fell for the second month in a row, though it remains clearly above 50. While strong semiconductor exports are driving growth, domestic consumption remains lacklustre. Australia's Manufacturing and Services PMIs both improved, though the latter remains

below 50. China's NBS and Caixin PMIs painted a mixed picture, with the NBS Manufacturing PMI falling below 50, a reflection of early power supply problems. South Korea's export value reached a record high in September on solid semiconductor, mobile and auto exports. Industrial production and consumer related statistics are also encouraging. Australia's house prices continued to rise at a pace of 1.6% MoM nationwide, with Sydney and Brisbane leading the pack. Home sales continue to be brisk in Sydney but have weakened in Melbourne.

LatAm: Banxico hikes as expected, economic activity continues to surprise in Chile

In a split decision, Banxico raised the monetary policy rate by 25bps to 4.75%, driven by the upside risk to inflation and expectations. Although the balance of risks for inflation is upward, the board maintains that price shocks are transitory and inflation will begin to decrease in 2022, reaching its target of 3% by the end of 2023. Economic activity in July increased by 0.54% MoM, below market expectations, and the labour market participation rate fell while unemployment remained stable at 4.3%.

In Chile, the lower house approved the fourth withdrawal from pension funds, but by a tight margin, receiving 94 positive votes (where 93 needed), while the previous withdrawal obtained 120 positive votes. The bill will now be voted on in the Senate, where we believe it is more challenging to be approved. Economic activity surprised the upside for the sixth consecutive month, growing 1.1% MoM in August, driven by services. The labour market continues to recover, with the unemployment rate falling from 8.9% to 8.5%.

Credit: An oasis of calm amid broader market jitters

Credit markets, often a leading signal of stress ahead of major market disruptions, have been remarkably stable over the last few weeks. Last week, while spreads softened modestly, the softness paled in comparison to the gyrations in stock markets. Not only were the secondary markets holding in well, but the primary market also confirmed strong demand. While European and US investment grade primary markets saw decent activity, US high yield saw robust volumes with heavy oversubscription. In fact, led by a Medline deal, Thursday saw around USD 10 billion of

debt sold in the US high yield market, making it one of the busiest days in many years. The concerns around Evergrande, as well as the rise in bond yields, have not deterred credit demand, as can also be seen from the broad inflows into credit funds. It seems that credit investors are looking through a lot of current stock market volatility as noise and are focussed more on longer-term trends of improving credit fundamentals, as reflected by some notable upgrades last week.

What to Watch

- In the US, investors will focus on the latest labour market report as it will set the stage for the Fed's next move. Even a modestly positive report is unlikely to deter the Fed from beginning to taper its asset purchases in November.
- In APAC, we believe Australia's RBA and India's RBI will keep policy rates unchanged, whereas New Zealand's RBNZ is likely to raise its policy rate by 25bps to 0.5%. We will focus on Hong Kong's Policy Address as well as Japan's September Eco Watchers Survey. Taiwan will release September export data, while several countries will publish CPI data for September. Australia's financial markets will be closed on Tuesday (Labour Day), while Mainland China's markets will reopen on Friday.
- In LatAm, the focus will be on inflation for Brazil, Chile, and Mexico. Industrial production, retail sales, and PMIs in Brazil will also be released.

Disclaimer and cautionary statement

This publication has been prepared by Zurich Insurance Group Ltd and the opinions expressed therein are those of Zurich Insurance Group Ltd as of the date of writing and are subject to change without notice.

This publication has been produced solely for informational purposes. The analysis contained and opinions expressed herein are based on numerous assumptions concerning anticipated results that are inherently subject to significant economic, competitive, and other uncertainties and contingencies. Different assumptions could result in materially different conclusions. All information contained in this publication have been compiled and obtained from sources believed to be reliable and credible but no representation or warranty, express or implied, is made by Zurich Insurance Group Ltd or any of its subsidiaries (the 'Group') as to their accuracy or completeness.

Opinions expressed and analyses contained herein might differ from or be contrary to those expressed by other Group functions or contained in other documents of the Group, as a result of using different assumptions and/or criteria.

The Group may buy, sell, cover or otherwise change the nature, form or amount of its investments, including any investments identified in this publication, without further notice for any reason.

This publication is not intended to be legal, underwriting, financial investment or any other type of professional advice. No content in this publication constitutes a recommendation that any particular investment, security, transaction or investment strategy is suitable for any specific person. The content in this publication is not designed to meet any one's personal situation. The Group hereby disclaims any duty to update any information in this publication.

Persons requiring advice should consult an independent adviser (the Group does not provide investment or personalized advice).

The Group disclaims any and all liability whatsoever resulting from the use of or reliance upon publication. Certain statements in this publication are forward-looking statements, including, but not limited to, statements that are predictions of or indicate future events, trends, plans, developments or objectives. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, developments and plans and objectives to differ materially from those expressed or implied in the forward-looking statements.

The subject matter of this publication is also not tied to any specific insurance product nor will it ensure coverage under any insurance policy.

This publication may not be reproduced either in whole, or in part, without prior written permission of Zurich Insurance Group Ltd, Mythenquai 2, 8002 Zurich, Switzerland. Neither Zurich Insurance Group Ltd nor any of its subsidiaries accept liability for any loss arising from the use or distribution of publication. This publication is for distribution only under such circumstances as may be permitted by applicable law and regulations. This publication does not constitute an offer or an invitation for the sale or purchase of securities in any jurisdiction.